



CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets

Affiliated with the American Institute of CPAs

Challenge and Change: Auditing in the Decade Ahead

Session 1: International Developments in Auditing

Audit Quality Symposium
Canadian Public Accountability Board
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CAQ's Vision

The Center for Audit Quality is dedicated to enhancing investor confidence and public trust in the global capital markets by:

- Fostering high quality performance by public company auditors
- Convening and collaborating with other stakeholders to advance the discussion of critical issues requiring action and intervention
- Advocating policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions



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PCAOB: Auditor's Reporting Model

CAQ Comment Letter on Concept Release – Overarching Principles

- Auditors should not be the original source of disclosure about the entity
- Any changes should enhance, or at least maintain, audit quality
- Any changes should narrow, and not expand, the expectation gap
- Any changes should add value and not result in possible investor misunderstanding
- Auditor reporting should focus on the objective rather than the subjective



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PCAOB: Auditor's Reporting Model

CAQ Comment Letter on Concept Release – Alternate Proposals

- New examination report on management's critical accounting estimates disclosure in MD&A
- Expanded use of emphasis paragraphs in audit reports (objective, fact-based, with specific references to financial statement disclosures)
- Addition of clarifying language to the standard report

Believe alternatives are responsive to needs of investors

Model reports to illustrate how reporting could occur in practice



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IAASB Consultation on Enhancing the Value of Auditor Reporting

CAQ Comment Letter – through lens of U.S. regulatory regime

- Supported:
 - Clarifying language in the audit report on responsibilities of management, the auditor and those charged with governance over financial reporting and the external audit
 - Use of objective, fact-based emphasis paragraphs to help identify matters that are most important to a reader's understanding of the financial statements
 - Adding an explanation of the auditor's responsibility to read other information in documents containing audited financial statements
 - Exploring auditor assurance on certain disclosures outside the financial statements
- Role of the auditor and auditor's report should be examined holistically with the roles of all financial reporting stakeholders

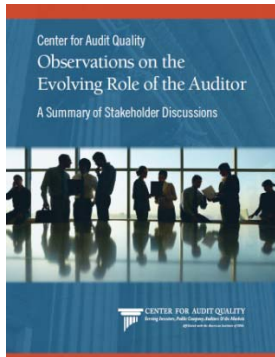


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Evolving Role of the Auditor



Stakeholder observations

- Audit is valuable and “pass-fail” report should be retained
- Investors would benefit from additional auditor assurance on certain management disclosures outside the audited financial statements (e.g., MD&A, earnings releases)
- The auditor’s role should be limited to attesting to information asserted by management
- Cost-benefit is important. Some information may not be “auditable” or would require substantial additional work and cost
- If auditors are asked to do more with respect to certain disclosures outside of the financial statements, regulators must provide a framework



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Independence and Mandatory Firm Rotation

- CAQ and the profession are identifying additional ways to enhance auditor independence, skepticism and objectivity
- Independence, skepticism and objectivity are separate concepts that combine to assure audit quality
- Economic analysis requires strong tie between “problem” and “solution”
 - Would increase compliance costs for public companies
- The role of the audit committee – which has statutory mandate to hire and oversee auditor independence and quality of audit – could be strengthened
- Any mandated changes to structure and business models of the audit profession demand consistency across regulators



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EC: Green Paper on Audit Policy

CAQ Comment Letter – limited to issues informed by U.S. regulatory model

- Urged governmental authorities to avoid conflicting requirements
- Take into account the legally-required roles of management and boards
- Supported greater transparency surrounding the audit to narrow expectation gap
- Disagreed with mandatory firm rotation or third-party appointment, consistent with the majority of commenters
- Encouraged exploration of additional auditor assurance on management disclosures outside the audited financial statements with appropriate framework
- Supported open two-way communication with financial and market regulators to supplement their monitoring and identification of emerging systemic risks



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PCAOB Identification of Engagement Partner and Other Participants

- **Engagement Partner Identification**
 - CAQ is supportive of greater transparency with respect to the relative responsibilities of auditors and others – and regarding the audit itself
 - Unlikely identification will improve audit quality
 - Engagement partners already are accountable (PCAOB quality control standards; accountability to investors, audit committees, and other firm partners)
 - PCAOB should take formal position that rule will not change current liability regime
- **Identification of Other Participants in the Audit Report**
 - What level of participation should trigger firm-specific vs. aggregate disclosure of participants in the audit report
 - PCAOB SAG investor members: 3% threshold is too low



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